ECONOMIC VITALITY INCENTIVE PROGRAM

UNFUNDED ACCRUED LIABILITY PLAN

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SUMMARY OF REQUIREMENTS

Unfunded accrued liabilities are referring to employee pensions or other post-employment benefits where sufficient assets have not been set aside in a trust or other investment vehicle to fund the accrued liability. The City of Monroe must file an unfunded accrued liability plan with the Michigan Department of Treasury by June 1, 2014 to qualify for category 3 funding of the Economic Vitality Incentive Program (EVIP) for fiscal year 2014. The plan for the City of Monroe will cover the City of Monroe Employees Retirement System and the City of Monroe Retiree Health Care Plan.

CITY OF MONROE EMPLOYEES RETIREMENT SYSTEM

Current Benefit Analysis: The City of Monroe currently offers retirement benefits to all full-time employees through the City of Monroe Employees Retirement System. The plan is operated and maintained by the City through the appointment of a Pension Board of Trustees. The plan provides defined benefit type retirement benefits to most full-time employees, except those that were hired after 1997 that are not police or firefighter union members. Those excepted employees receive a hybrid plan that has both defined benefit and defined contribution retirement benefit options. New hires that are not police officers or firefighters will continue to receive benefits from the hybrid plan. Police and firefighter new hires will receive a defined benefit plan, but the benefits have been reduced for new hires, including a reduced multiplier and a reduction in compensation amounts that will be included in final average compensation. Employees in the police and fire unions do not receive social security. Employees in all other labor groups are eligible for social security.

Unfunded accrued liability history: The history of the unfunded accrued liability for the retirement system is displayed in the following table:

	Actuarial Valuation Date				
	12/31/2013	**12/31/2012**	**12/31/2011**	**12/31/2010**	**12/31/2009**
Total Accrued Liability	$ 132,708,227	$ 130,740,945	$ 128,991,046	$ 124,415,442	$ 120,828,449
Present Assets (Funding Value)	130,299,553	130,063,087	131,234,283	132,118,603	131,183,536
Present Assets (Market Value)	135,144,666	121,436,535	115,400,471	120,382,220	112,259,981
Unfunded Accrued Liability	2,408,674	677,858	(2,243,237)	(7,703,161)	(10,355,087)

Prior to the recession of 2008 and the deep market declines, the retirement system was fully funded on both a market and funding value basis and no unfunded accrued liability existed. The retirement system was 118% funded on a funding value basis and 119% funded on a market value basis as of the 12/31/2007 actuarial valuation date. On a funding value basis, the plan continued to be funded over 100% until the December 31, 2012 actuarial valuation. As of December 31, 2013, the plan was 98% funded on a funding value basis and 102% funded on a market value basis.

Previous actions taken to reduce the unfunded accrued liability:

1. In 2010, the retirement system's actuary completed a focused study of some of the assumptions used to complete the annual actuarial study and the effect on the funded status of the system if they were changed to a different level. The assumptions studied and what they were compared to is as follows:
    a. Investment Rate of Return – 7.5% vs. changing to 8.0%
    b. Payroll increase rate per year – 4.5% vs. decreasing to 3.5%
    c. Accrued liability amortization period – 27 years vs. increasing to rolling 30 years
    d. Asset smoothing period – 4 years vs. increasing to 7 years
2. After a review of the study, the rate of payroll increase per year was decreased from 4.5% to 3.5% and the asset smoothing period was increased from four (4) years to seven (7) years. The effect of the changes was to increase the actuarial value of assets by approximately $1.8 million and reduce the unfunded accrued liability by about $1.7 million.
3. Various changes in employee benefits have been made that will reduce the unfunded accrued liability. The changes include the following:
    a. Police officers and firefighters hired after June 30, 2008 receive reduced retirement benefits as compared to those hired prior to that date. The benefits were changed as follows:
        i. Multiplier reduced from 2.65% to 2.0% for the first fifteen (15) years and 2.25% for years of service greater than fifteen (15).
        ii. Final average compensation was capped to include base wages only.
    b. Police officers hired prior to July 1, 2008 had the amount of overtime that could be included in final average compensation capped at 200 hours per year.
    c. Firefighters hired prior to July 1, 2008 had the amount of overtime that could be included in final average compensation capped at 200 hours per year at the employee's forty (40) hour rate.
    d. For members of the General and Hybrid employee groups, retirement benefits were changed effective 12/31/14 so that final average compensation would not include overtime and payoff for unused vacation benefits in excess of 240 hours.
    e. For members of the General and Hybrid employee groups hired after 9/26/2011, retirement benefits were changed so that final average compensation would be based on base salary only.

Detailed description of how previous actions will continue to be implemented

1. The actuarial assumption changes that were made in 2010 have continued to be used through the actuarial study that was completed for December 31, 2013. The Pension Board of Trustees recently completed an overall review of the actuarial assumptions used and did not make any changes. It is expected that these assumptions will continue to be used but will be reviewed periodically to determine if they continue to appear appropriate.
2. The remaining changes that were made are all noted in collective bargaining agreements with the various unions. They will continue to be implemented until changed through collective bargaining.

Listing of additional actions that could be taken

Since the retirement system is over 100% funded on a market value basis as of the 12/31/2013 actuarial study, there really is no unfunded accrued liability to reduce. In the future, if we were to begin to accumulate an unfunded liability, we would consider taking some of the following actions.

1. Plan design modifications could be made, including: retirement eligibility and vesting requirements, multipliers, cost-of-living increases, and increases to the retirement age.
2. Funding strategies may also be made, including: contributing the annual required contribution to the plan (required by the State Constitution), and contributing more than the minimum required contribution.
3. Best practice policies that we would consider include: limiting what is included in the final average compensation calculation; reviewing/reducing the amortization period to pay off unfunded liabilities; and creating a policy on when benefit increases can be made.

CITY OF MONROE RETIREE HEALTHCARE PLAN

Current Benefit Analysis: The City of Monroe currently offers post-retirement healthcare benefits to all full-time employees hired prior to July 1, 2008 through the City of Monroe Retiree Healthcare Plan. Employees hired after that date participate in a defined contribution retiree healthcare savings plan.

Unfunded accrued liability history: The history of the unfunded accrued liability for the retirement healthcare system is displayed in the following table:

	Actuarial Valuation Date			
	12/31/2012	**12/31/2010**	**12/31/2008**	**12/31/2006**
Total Accrued Liability	$ 52,084,559	$ 51,703,768	$ 51,985,601	$ 62,970,849
Present Assets (Market Value)	14,796,096	12,465,300	8,148,464	8,668,479
Unfunded Accrued Liability	37,291,463	39,238,468	43,837,137	54,302,370

Since actuarial valuations began that complied with the requirements of Governmental Accounting Standards Board (GASB) Statements 43 and 45, the total liability has been reduced by over $10.0 million and the unfunded accrued liability has been reduced by over $17.0 million.

Previous actions taken to reduce the unfunded accrued liability:

Prior to changes made to the retirement healthcare benefit through negotiations with the various union groups representing City employees, if an employee retired from the City of Monroe and received a benefit from the retirement system, they were eligible to receive the same health insurance benefit that they were receiving in active employment throughout their retirement at no cost to the employee and this was without regard to the number of years of service that the employee had accumulated at retirement. An employing retiring with three (3) years of service was eligible for the same benefit as an employee that had served the City for twenty-five (25) or more years. The following changes were made to the retirement healthcare benefit to begin to reduce the City's unfunded accrued liability:

1. Mirroring was implemented for most employees that had not already retired. Mirroring means that an employee's healthcare benefit in retirement will change as the active employees benefit changes.
2. The percentage of the cost of the retirement benefit that the City would pay for after the employee retirees was changed to be the product of the employees years of service at retirement multiplied by 4%. So if an employee has twenty-five (25) years of service at retirement, they will receive 100% of the benefit that an active employee receives and it would be paid by the City. An employee with only ten (10) years of service would receive a 40% benefit and would be required to pay to the City the remaining 60% of the cost of the benefit.
3. Employees hired after June 30, 2008 were moved from the defined benefit retirement healthcare plan to a defined contribution retirement healthcare savings plan. The City contributes 3% of the average base wage of all full-time employees and the employee matches that amount on a pre-tax basis.
4. Beginning in January 2013, employees eligible for the defined benefit retirement healthcare plan that were members of the Police, Police Command, and Firefighters unions began contributing 3% of the average base wage of all full-time employees to the plan. The rest of the City's employees eligible for the benefit will begin contributing in July 2014.
5. The City had operating millage that had not been levied in the amount of .5634 mills. In the fiscal year ending June 30, 2013, the City levied that millage and transferred the funds to the Trust Fund for the retirement healthcare plan. In the first year, the millage generated approximately $486,000.
6. In combination with the change the City made to have retirees benefits mirror those of the active workforce, the legislation passed in 2011 to limit the amount that local units of government could pay towards employees health care benefits has reduced the premium growth rate used by the actuary and helped to reduce the unfunded accrued liability. The City, through provisions of union contracts, is using the capped healthcare cost amounts provided for in Public Act 152 of 2011.
7. Beginning in the fiscal year ending June 30, 2013, the amount the City has paid toward the annual required contribution (ARC) calculated by the actuary has been exceeded by approximately $200,000 each year.

Detailed description of how previous actions will continue to be implemented

1. Items 1-4 on the previous actions list are all contractual agreements with the various unions that represent City employees. These items will continue to be implemented until changed through collective bargaining. Agreements with the unions expire either at December 31,

2014 or December 31, 2015. The City has no intention of modifying these benefit provisions.

2. Items 5 and 7 are set by the City's budget process and will continue to be implemented through the fiscal year ending June 30, 2015 as they have been approved to continue with the adopted budget for that fiscal year.
3. Item 6 is contractual on the part of the City and also legislative on the part of the State of Michigan. Assuming the legislation will not be altered or revoked, the City's collective bargaining agreements call for the use of the hard cap provisions of Public Act 152 of 2011. The City does not intend to alter that provision in future contract negotiations.

Listing of additional actions that could be taken

While the City feels that it has made the necessary changes to manage the unfunded accrued liability, the following items could be considered to reduce the unfunded accrued liability in the future. Plan design modifications could be made, including: eligibility and vesting requirements, changes to coverage levels, increased co-payments, and increases to the retirement age. Funding strategies may also be made, including: contributing the annual required contribution to the plan and contributing more than the minimum required contribution, which we are doing at this time. Additional employees could also be moved to the defined contribution retirement healthcare savings plan.